
Earned Income Tax Credit (EITC)
Program Effectiveness and
Program Management
FY 1998 - FY 2002

Department of the Treasury
Internal Revenue Service
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Executive Summary

In 1997, the IRS released a study showing a high rate of noncompliance with the Earned Income Tax Credit (EITC) tax rules in tax year (TY) 1994. Further analysis of the study's findings suggested that EITC noncompliance reflected both unintentional and intentional errors by taxpayers. In response, Congress enacted legislation that permitted budget authority for five years and a new appropriation to address this noncompliance. The Balanced Budget Act of 1997 lifted the IRS discretionary appropriations cap for Fiscal Year (FY) 1998 through FY 2002 by \$716 million. The IRS was directed to use these funds only for the EITC compliance initiative. The Congress further instructed IRS to use the EITC appropriation "for expanded customer service and public outreach programs, strengthened enforcement activities, and enhanced research efforts to reduce EITC overclaims and erroneous filings associated with the EITC."

In response, IRS developed a multi-year EITC revenue protection strategy combining both compliance and education activities. Over the past five years, IRS allocated the EITC appropriations primarily to math error processing, examination, enforcement initiatives, and research. The IRS actually spent less than the \$716 million appropriated.¹ For FY 2002, IRS plans to allocate 70% of its annual EITC appropriations to post-filing activities, which will fund 80% of Full Time Equivalents involved with these activities. A portion of the appropriations has also been allocated to customer service and outreach to ensure that eligible nonclaimants are aware of the EITC and participate in the program. Research reports find that between 75 and 86% of all eligible taxpayers claim the EITC.

During the last five years, IRS protected and/or collected about \$5 billion in revenue from math error adjustments, correspondence exams, and field exams. This is the return on the EITC appropriation investment from compliance activities only.

Outreach, education and assistance have also helped EITC filers comply with the rules and reduce errors, but the savings from these efforts are not included in the estimate of revenue protected or collected. For example, the number of EITC math errors has declined due in part to IRS' redesign of EITC forms and instructions in 1999. Between TY 1998 and TY 1999, there was a 22.7% decrease in math errors, which was followed by an additional 14.1% decrease from TY 1999 to TY 2000. The savings associated with the decline in math errors are not included in the estimate of the \$5 billion protected and/or collected from compliance efforts.

The estimate above also does not include savings associated with improved compliance by taxpayers who made EITC-related errors in the past. The IRS developed a model for tracking subsequent year's behavior for certain IRS

¹ A total of \$704,274,697: \$558,274,697 from FY 1998 - FY 2001 and \$146 million in FY 2002.

compliance activities. In years subsequent to contact by IRS, whether through a notification letter notice, math error notice or audit, compliance improvement is measured as the dollars that were prevented from being claimed erroneously. The total compliance improvement revenue has been estimated to be over \$1 billion over a three-year period. This is not included in the \$5 billion revenue protected and/or collected over the five-year appropriation period.

The IRS is releasing the latest compliance study showing a high rate of noncompliance with EITC tax rules in TY 1999. Of the estimated \$31.3 billion in EITC claims made by taxpayers who filed returns in 2000 for TY 1999, it is estimated that approximately \$8.5 to \$9.9 billion (27% to 31.7%) should not have been paid. The difference between the upper-bound and lower-bound estimates (31.7% and 27%, respectively) reflect alternative assumptions regarding the compliance behavior of taxpayers who did not appear for audits. These estimates do not reflect the fact that some eligible taxpayers may not have claimed the credit to which they were entitled. The estimates are based primarily on examinations of a sample of EITC returns.

The last study of EITC compliance was conducted using TY 1997 returns. For TY 1997, it is estimated that between 23.8% and 25.6% of EITC claims should not have been paid. The difference in the lower-bound estimate between 1997 and 1999 (23.8% and 27.0%) is about 3.2 percentage points and falls within the range of sampling error. We cannot conclude with certainty that the actual percentage of EITC claims that should not have been paid has changed between 1997 and 1999 for the lower-bound estimates. Methodological and procedural differences between the two studies may also explain some or all of the differences.

Our analysis of audit results indicates that the types of errors made on TY 1999 returns are similar to those made on TY 1997 returns; however, the number of taxpayers who did not appear for audits increased substantially between 1997 and 1999.

The largest amount of overclaims was caused by taxpayers claiming children who were not their qualifying children. The most common qualifying child error was claiming a child that did not reside with the taxpayer for the required amount of time. The errors that resulted in the largest amount of the remaining overclaims were the following: income reporting errors, taxpayers claiming a qualifying child who was also the qualifying child of someone else with higher modified adjusted gross income, and married taxpayers who should have filed married-filing separately rather than single or head of household. These errors cannot generally be determined at the time the return is filed and processed.

Several of these types of errors will be addressed, as statutory changes become effective for TY 2002. These include: simplification of the income definitions; new rules for persons with the same qualifying child; and marriage penalty relief, which may help reduce incentives to misreport filing status. Beginning in TY 2004, IRS will be authorized to use math error procedures to deny EITC claims if the Health and Humans Services' Federal Case Registry indicates the taxpayer is not the custodial parent of the child claimed.

The IRS' EITC Compliance Strategy will assess both administrative and legislative remedies to address the continued levels of noncompliance. Future EITC improvement projects and initiatives will be aligned with taxpayer needs, maintain the integrity of the voluntary compliance system and enhance operating efficiency. For FY 2003, IRS plans to collect data for informed decision-making, improved compliance, and increased EITC participation by those who qualify.

The IRS plans to implement risk-based compliance systems and enhance its research strategy.

EITC Program Effectiveness and Program Management

The House Appropriations Committee Report for the FY 2002 Treasury, Postal Service and General Government Appropriations Bill (PL 107-152) directed the IRS to provide a report on the results, effectiveness, and success of the EITC program. The Committee also requested information on IRS' strategy for distributing the EITC appropriations between education and compliance enforcement efforts to achieve a proper mix of activities to address EITC noncompliance.

This report contains an analysis of the EITC Compliance Strategy for FY 1998 through FY 2002, including areas of targeted outreach and education, enforcement, compliance improvement and compliance research, and alignment of program resources to address EITC overclaims.

The EITC Program Management section provides a detailed overview of the types of errors made by taxpayers, which were detected during math error processing (including social security number errors) or during examinations. The analysis indicates that many errors are caused by misreporting of family status (e.g., the presence of a child or filing status). The analysis suggests that errors may reflect both unintentional errors and deliberate conduct.

I. EITC Program Effectiveness

The Wage and Investment Division (W&I) is responsible for implementation of the EITC program and coordinating and partnering across the IRS with internal and external stakeholders. Through its EITC National Program Office, W&I provides strategic direction, determines resource levels to support the priorities and projects, and evaluates performance results. The strategy has been integrated into the W&I Strategic Plan for FY 2001 – 2003, in accordance with the IRS Strategic Planning, Budgeting and Performance Management Process. This process is cyclical and iterative and dependent on rigorous research and analysis, solid management practices, and extensive coordination to assess the effectiveness of the program. It enables IRS to integrate its EITC strategic planning, budgeting, and performance mechanisms.

During the five-year period, IRS protected and/or collected about \$5 billion in revenue from math error adjustments, correspondence exams, and field exams. This is the return on the \$716 million EITC appropriation investment from compliance activities only.¹ Outreach, education and assistance have also helped EITC filers become aware of the program, comply with the rules, and reduce errors. The five-year EITC appropriation distribution is included in

¹ IRS spent \$704,274,697 of the EITC appropriations: \$558,274,697 from FY 1998 - FY 2001 and \$146 million projected for FY 2002

Appendix A. An overview of major IRS pre-filing, filing and post-filing EITC activities from FY 1998 to the present is included in Appendix B. Since FY 1998, IRS has allocated the annual EITC appropriations within the framework of pre-filing, filing and post-filing compliance activities, with the majority of program resources allocated to compliance enforcement. There has been a slight increase of resource allocations to outreach, education, and assistance with focus on problem prevention and awareness campaigns to inform eligible nonclaimants of the EITC. These individuals are eligible for the EITC but not claiming the credit. Research reports find that between 75 and 86% of all eligible taxpayers claim the EITC. A small percentage of the EITC appropriations have also been allocated annually to information services and management services.

The EITC Compliance Strategy reflects IRS' overall modernization objectives and strategic planning and budgeting process. The IRS Strategic Planning and Budgeting Process provides the framework for planning, resource management, and program assessment. Program management of the EITC has been cost effective, given IRS' resources and multiple priorities as IRS reengineers its business processes and modernizes enabling technology. The ongoing EITC Compliance Strategy will help ensure those future improvement projects and initiatives are aligned with taxpayer needs, maintain the integrity of the voluntary compliance system and enhance operating efficiency. For FY 2003, IRS plans to collect data for informed decision-making, improved compliance, and increased EITC participation by those who qualify. We plan to implement risk-based compliance systems and enhance our research strategy.

EITC Compliance Strategy is Data Driven

The IRS' research studies evaluate the effectiveness of IRS initiatives and improvement projects, analyze taxpayer preferences and behaviors, and predict future demographic and technological trends. These studies allow IRS to more effectively allocate its program resources to initiatives that improve compliance. An understanding of future trends allows IRS to plan for the needs of EITC filers as it enhances existing programs and builds new ones. The EITC Compliance Strategy addresses EITC overclaims through an integrated approach encompassing various compliance activities. This multi-pronged approach is necessary given that IRS cannot pursue every erroneous EITC claim through in-person examinations or criminal investigations.

Since FY 1998, IRS has taken the following steps to address EITC overclaims based on errors identified in EITC compliance studies:

- enhanced overall education and outreach to EITC filers
- implemented EITC education and enforcement programs aimed at paid preparers

- implemented a “pre-refund” examination process, where returns with questionable EITC claims are identified and refunds are held until the examination is completed
- received and implemented additional statutory authority to deny questionable claims during the initial processing (math error processing)
- developed a new database (Dependent Database) that helps in the detection of the most common EITC errors and improves selection of returns for audit

Significant legislative changes will become effective in TY 2002 that will simplify the eligibility rules and computation of EITC, thereby reducing recurring EITC errors. These include: simplification of the income definitions, replacement of modified adjusted gross income (AGI) with definition of AGI used elsewhere in the tax code; new rules for persons with the same qualifying child; a new definition of eligible foster child; increased income limitations for married taxpayers who file jointly; and repeal of alternative minimum tax reduction in the EITC.

Paid Preparer Strategy

The EITC appropriations have been allocated to pre-filing, filing and post-filing activities. There are also critical initiatives, such as those involving paid preparers that require an overarching approach to the EITC program. An increasing number of EITC filers rely on paid preparers to file their returns. For the general population, over 50% of returns are prepared by paid preparers. In TY 1997, 62% of all EITC returns were prepared by paid preparers. For tax year 1999, the percentage increased to 68%. The IRS has also been studying the types of errors made by paid preparers and has found them to be similar to those returns that are self-prepared.

Recognizing this trend, IRS has been partnering with the tax preparer community to increase accuracy of EITC returns and to ensure that taxpayers receive the proper credit. The IRS has also set up compliance programs to address noncompliance. The integrated preparer-oriented EITC compliance strategy is based on a combination of outreach, partnering, and compliance initiatives. The strategy consists of education for those who prepare EITC returns; visits by agents to review preparers' compliance with the due diligence requirements, assessing penalties as appropriate; and criminal investigations of fraudulent claims and schemes.

There are several programs geared to paid preparers. One program is the EITC Preparer Outreach Program for high volume preparers of EITC returns. It is designed to educate tax preparers on the EITC rules, including the due diligence requirements. The program uses letter correspondence and in certain instances, one-to-one education as the primary means to influence compliant behavior. It also provides the opportunity for EITC preparers to address issues directly with IRS representatives. In addition, there is a nationwide practitioner program

geared to enforcement actions. Schemes identified in this program include tax returns claiming false income tax refunds based on false income, false Federal income tax withheld, and/or false refundable credits, etc. False returns are detected through various sources, e.g., Fraud Detection Center (FDC) Teams located at the 10 IRS campuses, referrals from other campus business units, database analyses, and informants. Enforcement efforts around EITC involve both Criminal Investigation FDC personnel and field office special agents.

The IRS is currently evaluating the impact of these paid preparer programs upon future EITC compliance. The IRS has also surveyed practitioners through the Gallup Organization and conducted a web-based employee survey regarding the quality and adequacy of training. Continued feedback is being incorporated into future efforts. In addition, in the summer and fall of each year, IRS notifies preparers of avoidable return preparation errors that can often delay EITC claim processing. During the summer, preparers are invited to attend the IRS National Tax Forums and free local IRS-sponsored seminars in their community. In some cases they are visited personally to discuss EITC questions.

Pre-Filing Activities

The pre-filing component of the EITC strategy consists of education, outreach and assistance leveraged in many cases through partnerships with stakeholders and other third parties at the community level. A strategic pre-filing program is cost-effective, because it allows IRS to better utilize its traditional compliance resources. By addressing issues before EITC returns are filed, filing and post-filing problems are minimized. This also reduces e-File rejects, subsequent IRS notices and the need for costly examinations and enforcement actions. An effective pre-filing strategy achieves IRS business goals, reduces taxpayer burden, improves overall compliance, and efficiently utilizes IRS resources.

The IRS provides extensive EITC awareness campaigns through local marketing and promotional efforts, including media and taxpayer information on the availability of the EITC and the Advance EITC; videos distributed to social service agencies and unemployment offices; and training of Volunteer Income Tax Assistance (VITA) Program volunteers. A new IRS field operation in W&I was established geared to outreach and education. The Stakeholder Partnerships, Education and Communication (SPEC) organization in W&I is dedicated to assist taxpayers, including those claiming the EITC, in satisfying their tax responsibilities by building partnerships with key stakeholders, external partners and intermediaries.

For EITC claimants, SPEC conducts community-based outreach, with emphasis on prevention of errors and erroneous claims. Special local events are held in areas where a large number of EITC eligible taxpayers reside. The IRS offers targeted EITC products and services through convenient, easy-to-use distribution channels. The IRS plans to integrate the expanded refundable Child Tax Credit

into its EITC outreach efforts and educate taxpayers on the EITC changes taking effect in TY 2002. Success indicators are being built into this outreach strategy. Refer to Appendix C for some specific examples of EITC filer needs and planned strategies.

The IRS actively engages and participates with external partners, such as local, regional and state governments, businesses, community-based organizations, faith-based organizations, educational institutions, low income clinics, and external stakeholder groups. The IRS has successfully established formal partnerships with the Casey Foundation, National League of Cities, United Way, MacArthur Foundation, the Welfare to Work Partnership, Points of Light Foundation, and National Association of Community Action Agencies. These non-profit organizations work in conjunction with other community organizations and city and county councils. They help provide EITC educational information, free assistance with tax preparation and develop future financial literacy programs for low-income residents. Currently IRS has developed and is supporting community coalitions in Chicago, Los Angeles, Milwaukee, Indianapolis, Buffalo, Boston, Seattle, San Antonio, New Orleans, Louisville, Lexington, Providence, Toledo, and Baltimore. This model is being successfully used to establish community-based partnerships across the country.

Filing Activities

The majority of EITC filers interact with the IRS only during the filing season. In 2001, over half of the tax year 2000 EITC returns, or 9.9 million, were filed electronically, while 9.2 million paper returns were filed. A total of 19.1 million taxpayers claimed \$31.1 billion of EITC on their 2000 tax returns. Growing numbers of EITC filers are filing their returns electronically, with a 6.7% increase in 2001.

During the filing season, IRS provides a number of services, including filing, refund and tax law information through a variety of channels, and at times and locations generally convenient to EITC filers. These include automated and customer assisted toll-free telephone lines, a menu option on the 1040 toll-free number for EITC questions, EITC Teletax, updates to IRS' web site, and other assistance. Spanish speaking assistance was also expanded in our toll-free service, where EITC is a heavily used application.

The IRS continues to publicize the availability of free return preparation assistance and electronic filing provided through VITA and Tax Counseling for the Elderly. Low income tax clinics also provide services for those for whom English is a second language. In addition, over 400 IRS Taxpayer Assistance Centers throughout the country are available to provide help. For FY 2002, IRS has standardized services to help EITC claimants meet their filing obligations, by answering EITC questions, providing EITC forms and publications, and providing return preparation for certain low-income taxpayers during regular business

hours which have been expanded in several locations. For example, during February 2002, IRS has been open on Saturdays to assist EITC filers.

In the processing of EITC returns, IRS has implemented all legislative authority to use math error procedures to identify and stop inappropriate EITC claims before refunds are issued. During FY 2001, IRS stopped more than 371,000 potentially incorrect EITC claims. For EITC returns filed electronically, there are various revenue protection prevention and detection activities. Electronic return originators are checked for personal and professional compliance with filing and paying rules before they are authorized to provide electronic filing services. Once returns are transmitted, the return data, such as SSNs, are validated by electronic filing software to detect math errors and prevent erroneous claims from entering the processing system. The IRS does not accept these returns.

Post-Filing Activities

EITC compliance is a priority for the IRS. The IRS has allocated a substantial portion of the five-year EITC appropriations to compliance programs, both in selecting specific cases for contact to verify EITC eligibility and the amount of the claim and in identifying patterns of noncompliance. For FY 2002, IRS has allocated 70% of its EITC appropriations to post-filing activities to fund 80% of the full-time equivalents (FTE) involved with these activities.

The IRS has developed a model for tracking subsequent year's behavior for certain IRS non-enforcement and enforcement activities. In years subsequent to the enforcement or non-enforcement contact by the IRS, compliance improvement is measured as the dollars that were prevented from being claimed erroneously. The non-enforcement contact is a soft letter notifying taxpayers of potential noncompliance. Enforcement cases include those where a taxpayer is sent EITC Math Error Notices or a taxpayer was audited under an EITC Examination Audit Project Code. The estimated total compliance improvement revenue from 1997 to 1999 for both non-enforcement and enforcement situations is over \$1 billion. This amount is not included in the \$5 billion in revenue protected and/or collected during the five-year EITC appropriation period.

Criminal Investigation

Since noncompliance can be willful, criminal enforcement activities become a vital component of the EITC Compliance strategy, as reflected in the allocation of the EITC appropriations to criminal investigation activities during the five-year period. Criminal Investigation's Office of Refund Crimes detects fraudulent returns and prevents the issuance of related false refunds and supports the mission of Criminal Investigation field operations. The Office of Refund Crimes operates a Fraud Detection Center (FDC) at each of the IRS campuses. Criminal Investigation has actively participated in identifying tax refund scams and abusive return preparers through its Questionable Refund Program (QRP)

and Return Preparer Program (RPP). Criminal Investigation also has held training annually for its QRP/RPP coordinators. They will continue to play an important enforcement role. See Appendix D for further explanation of the QRP and the RPP.

Examination

The IRS' efforts to address EITC noncompliance have been expanded in the IRS campuses, as evidenced by the allocation of the EITC appropriations to correspondence examinations, representing almost 60% of the allocated dollars planned. The W&I Compliance Office coordinates with the Small Business/Self-Employed (SB/SE) Division to provide overall program management of EITC returns audited through the IRS campus correspondence exams. These are limited scope examinations by mail. Correspondence Examiners open an audit as the return is filed. When the return is filed, it is run against various exam selection systems and the returns are scored and selected. In many cases, the refunds are held and the audit process begins. The SB/SE Division is responsible for the compliance of EITC filers with earned income from sources other than wages. Throughout the examination process, EITC claimants have administrative rights, including an opportunity for audit reconsideration, administrative appeal rights, or the right to file in the Tax Court, if there is disagreement with the audit results.

The IRS has centralized EITC examination activities, which facilitates workload management and the development of risk-based compliance strategies. The organizational structure provides for clear and consistent management of EITC policy and resources. Strategies are supported through the development of risk-based examination approaches that use research of EITC filer behavior, history and needs in the examination process. Implementing such risk-based compliance systems is a more effective use of resources, reduces burden on EITC entitled taxpayers and focuses on the non-entitled taxpayer. The IRS is making improvements in all steps of the process, including casework management and distribution, audit selection, reengineering of work processes, and enhanced communications with taxpayers. The IRS is also placing increased emphasis on training.

Consolidation of Correspondence Examinations

The IRS is consolidating EITC casework in seven IRS campuses. Working closely with the Campus Directors, W&I and SB/SE are implementing actions to address EITC workload and develop job aids to assist examiners. An EITC Front-line Decision Support tool with an accompanying Job Aid are being developed that will help the front line assistants determine EITC eligibility and will put the Internal Revenue Manual and the Probe and Response Guide content into a computer-based, graphical, easy-to-use format.

The tool will provide decision logic for EITC-related questions, including family qualification, qualifying child criteria, recertification, etc. The IRS plans to expand the number of examiners dedicated to EITC, increasing the need for this decision support tool to enhance consistency across sites and experience levels. Prior to the first release of the decision tool, a train-the-trainer approach will be conducted to ensure that IRS employees are familiar with the tool and EITC tax law. On-site support is available during and after the training.

In addition, all IRS campuses will utilize Report Generation System Batch Processing to expedite workload through the audit process. Taxpayers will be contacted about compliance problems in a more timely manner, and technical personnel will spend more time evaluating taxpayer correspondence and closing cases. Batch processing will eliminate the need for tax examiners to write initial reports and letters by providing computer-based features. These features will also continue to process the case through the audit process on no reply cases.

Risk-Based Workload Selection

For FY 2002, W&I Compliance will modify Exam systems to permit risk-based workload selections in subsequent years. System enhancements will also identify taxpayers who would benefit from alternative treatments, such as soft notices. The emphasis will be on selection and classification of return inventory. The objective is to deliver the right workload to the right campus according to staffing and expertise, identify high-and low-risk EITC populations for appropriate treatment, and capture selection and treatment results for tracking and planning. The IRS has also improved its overall case selection process to reduce the likelihood of unnecessarily contacting compliant taxpayers.

The IRS will work to enhance the effectiveness of the Dependent Database, an application designed to identify potentially non-compliant returns during returns processing. It is an EITC workload selection tool. The Database is now being deployed nationwide and pulls data from both internal and external data sets, including those provided by the Department of Health and Human Services (HHS) and the Social Security Administration (SSA). In FY 2001, IRS received the SSNs of parents linked with their newborn children from the SSA and child support orders from the HHS' Federal Case Registry. Both data sets are included in IRS' Dependent Database programming. The IRS also worked with HHS and SSA to discuss how to use their data in a systemic approach to better distinguish between compliant and noncompliant taxpayers.

In FY 2002, IRS plans to review analysis of the Dependent Database national rollout and use research findings to develop additional rules, modify scoring of rules, evaluate alternative treatments, and develop the FY 2003 EITC workplan. In addition, IRS will continue coordination and discussion with HHS, Office of Child Support Enforcement, on the status of state reporting and definition and updating elements. The IRS is also discussing with other Federal agencies the

possibility of developing links to other types of administrative data. The IRS is coordinating with the SSA to receive additional data (e.g., the prison data file). The use of the Dependent Database as an external data source will be expanded to identify non-compliant taxpayers for both the EITC and non-EITC exam programs, thereby reducing burden for compliant taxpayers.

II. EITC Program Management

The IRS tracks the types of EITC errors or overclaims made by taxpayers and their preparers through various research and statistical studies. Math errors, which include errors in SSNs, have declined since IRS received expanded math error authority. We attribute this decline in part to IRS' redesign of EITC forms and instructions in 1999. Education and outreach also were contributing factors to error reduction. These include notifying taxpayers who made errors in prior years and advising paid preparers of avoidable return preparation errors.

Periodic compliance studies on EITC compliance provide specific information on the types of errors made by taxpayers that cannot be determined based on the information on the return at the time the return is filed. For instance, there are recurring issues around the accuracy of the filing status of the EITC claimant and whether the child claimed for the credit is the filer's qualifying child. These studies yield useful information on types of errors, subsequent year behavior by taxpayers and paid preparers, including impact of repeat claim behavior, and filing patterns. The IRS factors this data into its EITC Compliance Strategy to better target program resources and engage in effective compliance activities, which includes math error processing, correspondence audits, to a lesser extent field examinations, criminal investigations, and compliance research. A growing proportion of EITC returns are prepared by practitioners, who make similar types of errors as those made on self-prepared returns. The IRS has therefore established a comprehensive return preparer strategy that combines education and compliance activities, as discussed above.

The IRS does not have the data to determine what portion of the overclaims are due to fraudulent or deliberate conduct by taxpayers or preparers, or erroneous but unintentional misunderstandings of the law. Research indicates that noncompliance or EITC overclaims is attributable to a wide range of causes, including complexity of the EITC eligibility rules and entry of new EITC claimants each year. The compliance data suggests that overclaims are associated with both intentional and unintentional errors. The IRS Criminal Investigation investigates those persons who promote, recruit, or engage in preparing fraudulent EITC claims and persons who flagrantly or repeatedly file false claims. These investigations are initiated and processed in accordance with Department of Justice Tax Division policies and guidelines. They are specifically targeted to one distinct segment of a larger EITC filer population.

Math Error Processing

The IRS has implemented all statutory provisions for EITC math errors. These procedures allow corrections of questionable EITC claims during processing of the return. Since 1999, IRS has used math error authority to deny EITC claims if children do not meet the credit's age qualifications. Similar authority is also being used to deny EITC claims by taxpayers without children, who are under 25 or 65 and over. The IRS is also using math error authority to deny EITC claims when the taxpayer was denied the credit in a previous year and did not follow recertification requirements to demonstrate their change in eligibility over the prior year.

There has been a reduction in math errors. There has been a drop of 22.7% between TY 1998 and TY 1999 and an additional decline of 14.1% from 1999 to 2000 from revisions to the EITC forms, publications, and instructions, which focused on clarifying the eligibility requirements and credit calculation. Math error notices issued in prior years may also have prevented some taxpayers from making the same errors in subsequent years. Outreach to paid preparers on avoidable EITC errors may be a contributing factor to reduced errors. The savings associated with the decline in math errors are not included in the estimate of the \$5 billion protected and/or collected from compliance efforts.

The top five EITC qualifying errors made by taxpayers filing TY 2000 returns are:

- SSN of the EITC qualifying child is invalid
- The taxpayer does not meet the age requirement
- There is a recertification indicator on the taxpayer's account
- The primary SSN is invalid
- The secondary SSN is missing or invalid

The overall number of EITC qualifying errors for TY 2000 returns has decreased by 8.5%. The top two EITC qualifying errors continued from TY 1999 to TY 2000 but decreased in overall number. The most significant drop in type of qualifying error was the number of mismatches of the EITC qualifying child's date of birth with SSA records, from over 9,000 for TY 1999, compared to around 200 in TY 2000. The most significant increase in qualifying errors was that the secondary SSN was missing or invalid, from 10,800 for TY 1999 to over 40,600 for TY 2000. This is due to the fact that secondary SSN validation was only partially implemented the year before. The SSA needed the time to prepare for taxpayer requests for record correction.

In FY 2001, IRS stopped more than 371,000 potentially incorrect EITC claims. The IRS also sent pre-filing season information notices to taxpayers who made certain errors on their prior income tax returns. For example, notices were sent to taxpayers who claimed a qualifying child who was also claimed by another taxpayer or who provided information on their returns that indicated their

qualifying child exceeded the age limit. By sending pre-filing season information notices and stopping refunds to the taxpayer with identifiable EITC errors on their returns, the IRS prevented distributing incorrect refunds. Post-filing compliance activities such as adjustments made through correspondence audits were discussed under EITC program effectiveness.

Types of EITC Errors from the TY 1999 Compliance Study

The IRS is releasing the latest compliance study showing a high rate of noncompliance with the EITC tax rules in TY 1999. Of the estimated \$31.3 billion in EITC claims made by taxpayers who filed returns in 2000 for TY 1999, it is estimated that approximately \$8.5 to 9.9 billion (27.0 % to 31.7%) should not have been paid. The difference between the upper-bound and lower-bound estimates (31.7% and 27%, respectively) reflect alternative assumptions regarding the compliance behavior of taxpayers who did not appear for audits. These estimates do not reflect the fact that some eligible taxpayers may not have claimed the credit to which they were entitled. The estimates are based primarily on examinations of a sample of EITC returns.

The last study of EITC compliance was conducted using TY 1997 returns. For TY 1997, it is estimated that between 23.8% and 25.6% of EITC claims should not have been paid. The difference in the lower-bound estimate between 1997 and 1999 (23.8% and 27.0%) is about 3.2 percentage points and falls within the range of sampling error. We cannot conclude with certainty that the actual percentage of EITC claims that should not have been paid has changed between 1997 and 1999 for the lower-bound estimates. Methodological and procedural differences between the two studies may also explain some or all of the differences. First, procedural improvements in 1999 may have resulted in better detection of errors. For example, examiners were provided with formal training in preparation for the tax year 1999 study. Second, examiners audited a class of individuals in the 1999 study who had not been examined in the 1997 study. These were individuals whose entire EITC claim had been denied in return processing. In particular, between 1997 and 1999, the EITC claims attributable to taxpayers who were unwilling or unable to appear for the audit nearly doubled. When these claims are treated as overclaims, they account for about 72% of the difference in the estimated overclaim error rates between 1997 and 1999.

Our analysis of the audits indicates that the types of errors made on TY 1999 returns are similar to those made on TY 1997 returns. The largest amount of overclaims was caused by taxpayers claiming children who were not their qualifying children. About 24.9% of the estimated overclaimed EITC amounts are attributable solely to taxpayers claiming an ineligible child. The most common error was claiming a child that did not meet the residency requirements. Under current law, taxpayers are required to reside with their qualifying child for more than six months or a full year, depending on their relationship of the child to the taxpayer. The second most common qualifying child error is claiming a child

who does not meet the relationship criteria. In 2004, IRS is authorized to use the math error procedures to deny EITC claims if the Federal Case Registry indicates the taxpayer is the noncustodial parent of the child claimed, thereby addressing some of the residency errors made by EITC claimants.

The second most common error is attributable to income misreporting. About 21.4% of EITC overclaims are due solely to income reporting errors. Income misreporting includes underreporting of earned income and modified AGI and less frequently, overreporting of earned income and underreporting of EITC disqualified investment income. It also includes cases where the taxpayer filed as single or head of household but should have used married filing jointly status, and the omitted spouse had income. Beginning in TY 2002, non-taxable earned income will be eliminated from the EITC computation, thereby reducing the number of future EITC overclaims. In addition, taxpayers will no longer be required to compute modified AGI, reducing future errors.

The third largest amount of overclaims is associated with family living arrangements. In these situations, a child is the qualifying child of both the taxpayer and another person. In these cases, only the person with the higher modified AGI is eligible to claim the EITC. However, about 17.2% of overclaimed EITC amounts are the result of the person with the lower modified AGI claiming the child. In TY 2002, there will be new rules for persons with the same qualifying child that should reduce these types of errors.

The report does not examine taxpayers who did not claim the EITC but who, in fact, may have been eligible for the credit. Thus, the estimates do not reflect the extent to which the credit was underclaimed by taxpayers who were eligible for the EITC, but who either did not claim the credit on their returns or did not file tax returns at all. One implication of this restriction is that the study does not account for offsetting errors that occurred when two taxpayers resided with a qualifying child. In such situations, only the taxpayer with the higher modified AGI was eligible to claim the EITC. However, the taxpayer with the lower modified AGI sometimes erroneously claimed the EITC, while the second taxpayer may have been eligible for the EITC but did not claim any credit at all. The estimates reflect the error made by the taxpayer who incorrectly claimed the child, but do not include any EITC that might properly have been claimed by the taxpayer with the higher income.

About 10.7% of the EITC overclaims are associated with the misreporting of filing status among married taxpayers. These taxpayers filed as single or head of household when they should have filed as married filing separately. An additional 6.7% of EITC overclaims are attributable to a combination of qualifying child and filing status-reporting errors. As mentioned above, marriage penalty relief may also help reduce incentives to misreport filing status.

APPENDIX A

FY 1998		FTE		DOLLARS		REVENUE PROTECTED
		PLANNED	ACTUALS	PLANNED	ACTUALS	
Pre-filing						
MAC 13	Communications & Liaison	0.00	0.00	1,671,500	1,640,704	
MAC 27	Area Distribution Centers	8.00	8.00	145,589	145,588	
MAC 28	Taxpayer Education	17.45	13.90	799,632	825,981	
TOTAL	Pre-filing	25.45	21.90	2,616,721	2,612,273	
	Percentage	1%	1%	2%	2%	
Filing						
MAC 21	Submission Processing	49.33	49.85	5,967,667	5,956,530	
MAC 25	Walk-in	40.92	52.31	2,294,783	2,213,142	
MAC 40	Customer Service/Toll Free	218.00	161.90	10,281,272	7,635,495	
MAC 59	IS - Telecommunication	0.00	0.00	4,255,125	4,253,269	
MAC 74	Utilities and Services	0.00	0.00	534,145	530,960	
TOTAL	Filing	308.25	264.06	23,332,992	20,589,396	
	Percentage	14%	11%	17%	15%	
Post-filing						
MAC 30	Criminal Investigation	495.00	494.49	28,189,242	28,142,864	
MAC 31	Examination	262.03	281.43	14,205,148	14,305,057	
MAC 34	International	1.80	1.11	85,320	79,005	
MAC 35	Appeals	12.00	10.40	796,576	796,421	
MAC 37	Collection	0.00	0.00	-	143	
MAC 40	Customer Service/SC Exam	1020.29	1147.82	48,118,720	50,622,178	
MAC 61	Compliance Research	12.18	11.57	4,906,930	3,209,374	
TOTAL	Post-filing	1803.30	1946.82	96,301,936	97,155,042	
	Percentage	80%	83%	70%	71%	
Information Services						
MAC 57	Information Systems	26.01	23.64	10,516,633	10,348,167	
TOTAL	Information Services	26.01	23.64	10,516,633	10,348,167	
	Percentage	1%	1%	8%	8%	
Management Services						
MAC 14	Financial Operations	18.57	18.57	956,134	956,134	
MAC 17	Internal Audit	0.00	0.00	55,000	55,000	
MAC 29	Indirect Support	0.00	0.00	8,330	8,330	
MAC 77	Support Services	61.00	83.15	4,210,522	4,175,622	
MAC 78	Field Management Programs	0.00	0.00	1,732	1,722	
TOTAL	Management Services	79.57	101.72	5,231,718	5,196,808	
	Percentage	4%	4%	4%	4%	
FY 1998 GRAND TOTAL		2242.58	2358.14	\$ 138,000,000	\$ 135,901,686	977.2

FY 1999						REVENUE PROTECTED
		FTE		DOLLARS		
	Pre-filing	PLANNED	ACTUALS	PLANNED	ACTUALS	
MAC 13	Communications & Liaison	0.00	0.00	1,387,002	591,849	
MAC 22	Problem Resolution Program	0.00	0.05	-	625	
MAC 27	Area Distribution Centers	8.00	8.00	156,540	154,972	
MAC 28	Taxpayer Education	20.02	15.75	1,633,883	1,096,142	
TOTAL	Pre-filing	28.02	23.80	3,177,425	1,843,588	
	Percentage	1%	1%	2%	1%	
Filing						
MAC 21	Submission Processing	72.00	55.77	21,156,757	7,617,820	
MAC 25	Walk-in	52.49	72.41	3,691,122	3,725,049	
MAC 40	Customer Service/Toll Free	146.00	174.00	5,714,172	7,308,000	
MAC 59	IS - Telecommunication	0.00	0.00	5,511,000	1,326,614	
MAC 74	Utilities and Services	0.00	0.00	-	570,095	
TOTAL	Filing	270.49	302.18	36,073,051	20,547,578	
	Percentage	14%	13%	25%	15%	
Post-filing						
MAC 30	Criminal Investigation	507.60	512.84	25,921,939	25,787,131	
MAC 31	Examination	183.19	152.87	10,676,698	8,824,937	
MAC 32	Chief Counsel	12.00	18.09	1,478,536	1,370,475	
MAC 34	International	1.50	1.60	134,520	108,879	
MAC 35	Appeals	15.70	17.03	1,573,474	1,570,907	
MAC 40	Customer Service/SC Exam	780.90	1193.94	32,798,346	44,829,257	
MAC 61	Compliance Research	25.31	28.24	8,725,246	3,831,003	
TOTAL	Post-filing	1526.20	1924.61	81,308,759	86,322,589	
	Percentage	77%	81%	57%	61%	
Information Services						
MAC 57	Information Systems	52.00	24.24	16,607,200	25,867,554	
TOTAL	Information Services	52.00	24.24	16,607,200	25,867,554	
	Percentage	3%	1%	12%	18%	
Management Services						
MAC 14	Financial Operations	13.50	16.76	949,166	1,061,275	
MAC 18	Internal Security	0.00	0.00	-	10,120	
MAC 29	Indirect Support	0.00	0.00	-	548,821	
MAC 77	Support Services	82.00	93.73	4,880,429	4,276,487	
MAC 78	Field Management Programs	0.00	0.00	3,970	-	
TOTAL	Management Services	95.50	110.49	5,833,565	5,896,703	
	Percentage	5%	5%	4%	4%	
FY 1999 GRAND TOTAL		1972.21	2385.32	\$ 143,000,000	\$ 140,478,012	
1123.1						

FY 2000		FTE		DOLLARS		REVENUE PROTECTED
		PLANNED	ACTUALS	PLANNED	ACTUALS	
Pre-filing						
MAC 13	Communications & Liaison	0.00	0.00	1,387,000	1,389,335	
MAC 22	Problem Resolution Program	31.15	19.04	1,429,935	984,436	
MAC 28	Taxpayer Education	33.00	24.32	2,429,321	1,579,757	
MAC 71	Electronic Tax Administration	0.30	0.03	21,836	6,582	
TOTAL	Pre-filing	64.45	43.39	5,268,092	3,960,110	
	Percentage	3%	2%	4%	3%	
Filing						
MAC 21	Submission Processing	84.00	74.24	21,357,418	11,388,801	
MAC 25	Walk-in	77.00	55.53	4,646,480	3,473,312	
MAC 40	Customer Service/Toll Free	125.48	112.85	5,270,160	4,739,700	
MAC 59	IS - Telecommunication	0.00	0.00	-	2,491,630	
TOTAL	Filing	286.48	242.62	31,274,058	22,093,443	
	Percentage	14%	13%	22%	16%	
Post-filing						
MAC 30	Criminal Investigation	407.00	477.38	20,611,330	27,176,687	
MAC 31	Examination	247.20	185.75	17,984,332	12,313,119	
MAC 32	Chief Counsel	12.24	11.32	1,184,127	956,147	
MAC 35	Appeals	15.10	14.47	1,461,949	1,331,700	
MAC 40	Customer Service/SC Exam	981.37	898.02	47,242,848	45,482,004	
MAC 61	Compliance Research	32.70	23.32	9,701,929	2,617,623	
TOTAL	Post-filing	1695.61	1610.26	98,186,515	89,877,280	
	Percentage	81%	84%	68%	64%	
Information Services						
MAC 57	Information Systems	36.00	22.91	9,271,335	23,857,586	
TOTAL	Information Services	36.00	22.91	9,271,335	23,857,586	
	Percentage	2%	1%	6%	17%	
FY 2000 GRAND TOTAL		2082.54	1919.18	\$ 144,000,000	\$ 139,788,419	699.3

FY 2001						REVENUE PROTECTED
		FTE		DOLLARS		
	Pre-filing	PLANNED	ACTUALS	PLANNED	ACTUALS	
PAC 5C	Communications & Liaison	0.00	0.00	2,514,312	2,476,487	
PAC 1C	Taxpayer Education	35.00	31.85	3,580,196	3,312,773	
PAC 1E	Rulings & Agreements	2.24	2.24	227,795	222,655	
PAC 1H	Electronic Tax Administration	0.30	0.30	13,289	15,632	
PAC 1J	Taxpayer Advocacy	0.02	0.02	1,321	1,321	
TOTAL Pre-filing		37.56	34.41	6,336,913	6,028,868	
Percentage		2%	1%	4%	4%	
	Filing					
PAC 2B	Submission Processing	51.28	39.45	2,400,287	1,154,196	
PAC 2C	Acct Management & Assistance - Electronic/Correspondence Assistance	186.20	189.68	7,680,173	7,714,486	
PAC 2D	Acct Management & Assistance - Field Assistance	68.18	66.75	4,015,847	4,005,816	
PAC 9E	IS - Telecommunication	0.00	0.00	956,057	924,065	
TOTAL Filing		305.66	295.88	15,052,364	13,798,563	
Percentage		13%	13%	10%	10%	
	Post-filing					
PAC 7F	Tax Reporting Compliance - Electronic/Correspondence Exam	1444.20	1397.42	67,530,222	67,160,047	
PAC 7G	Tax Reporting Compliance - Field Exam	107.60	101.35	7,259,613	7,182,208	
PAC 7H	Criminal Investigation	410.00	421.99	23,100,135	23,084,204	
PAC 7K	Appeals	15.10	14.62	1,551,067	1,508,485	
PAC 7L	Litigation	7.90	7.90	680,102	679,640	
PAC 7M	Taxpayer Advocate Case Processing	31.13	30.26	1,762,991	1,762,990	
PAC 8A	Research	16.81	15.55	1,982,950	1,869,656	
TOTAL Post-filing		2032.74	1989.09	103,867,080	103,247,230	
Percentage		85%	85%	72%	73%	
Information Services						
PAC 9B	Information Systems	20.00	17.20	10,929,219	10,752,373	
TOTAL Information Services		20.00	17.20	10,929,219	10,752,373	
Percentage		1%	1%	8%	8%	
Shared Services Support						
PAC 4H	Space and Housing/Non-ADP Equipment	0.00	0.00	26,600	9,528	
PAC 5A	Unit General Management & Administration	8.00	7.64	8,288,824	8,269,820	
PAC 7A	Compliance Services Management	0.00	0.00	180,000	-	
TOTAL Corporate Support		8.00	7.64	8,495,424	8,279,348	
Percentage		0.3%	0.3%	5.9%	5.8%	
FY 2001 SUB-TOTAL		2403.96	2344.22	\$ 144,681,000	\$ 142,106,382	
FY 2000 RECISSION		0.00	0.00	319,000	-	
INVALID PAC		0.00	0.00	-	198	
FY 2001 GRAND TOTAL		2403.96	2344.22	\$ 145,000,000	\$ 142,106,580	1168.6

FY 2002						REVENUE PROTECTED (estimate)
		FTE		DOLLARS		
		ESTIMATED		ESTIMATED		
Pre-filing		PLANNED	ACTUALS	PLANNED	ACTUALS	
PAC 5C	Communications & Liaison	1.00	1.00	1,423,217	1,400,000	
PAC 1C	Taxpayer Education	60.00	57.00	4,849,880	4,700,000	
PAC 1E	Rulings & Agreements	3.06	3.06	286,523	286,523	
PAC 1H	Electronic Tax Administration	0.30	0.30	34,412	34,412	
PAC 1J	Taxpayer Advocacy	0.02	0.02	1,321	1,321	
TOTAL	Pre-filing	64.38	61.38	6,595,353	6,422,256	
	Percentage	3%	2%	5%	4%	
Filing						
PAC 1D	Media & Publications	4.00	3.00	3,306,268	3,000,000	
PAC 2B	Submission Processing	49.00	39.00	2,061,483	1,154,196	
PAC 2C	Acct Management & Assistance - Electronic/Correspondence Assistance	191.20	191.00	9,253,887	9,253,887	
PAC 2D	Acct Management & Assistance - Field Assistance	67.80	66.75	3,864,811	3,900,000	
PAC 9E	IS - Telecommunication	0.00	0.00	1,000,000	1,000,000	
TOTAL	Filing	312.00	296.75	19,486,449	15,308,083	
	Percentage	13%	12%	13%	10%	
Post-filing						
PAC 7F	Tax Reporting Compliance - Electronic/Correspondence Exam	1261.00	1397.42	61,486,369	67,160,047	
PAC 7G	Tax Reporting Compliance - Field Exam	50.00	50.00	3,733,050	3,700,000	
PAC 7H	Criminal Investigation	410.00	421.99	24,244,725	23,084,204	
PAC 7K	Appeals	15.10	14.62	1,587,448	1,508,485	
PAC 7L	Litigation	9.18	7.90	844,500	679,640	
PAC 7M	Taxpayer Advocate Case Processing	123.98	123.98	8,353,491	8,300,000	
PAC 8A	Research	21.00	15.55	2,293,926	1,869,656	
TOTAL	Post-filing	1890.26	2031.46	102,543,509	106,302,032	
	Percentage	80%	82%	70%	73%	
PAC 9B	Information Services Information Systems	21.00	17.20	7,778,477	7,000,000	
TOTAL	Information Services	21.00	17.20	7,778,477	7,000,000	
	Percentage	1%	1%	5%	5%	
Shared Services Support						
PAC 5A	Unit General Management & Administration	13.00	12.00	5,584,761	5,500,000	
PAC 7A	Compliance Services Management	14.00	14.00	1,131,418	1,131,418	
TOTAL	Corporate Support	27.00	26.00	6,716,179	6,631,418	
	Percentage	1.1%	1.0%	4.6%	4.5%	
FY 2002 SUB-TOTAL		2314.64	2432.79	\$ 143,119,967	\$ 141,663,789	
PLAN 0290		57.00	57.00	\$ 2,880,033	\$ 4,336,211	
FY 2002 GRAND TOTAL		2371.64	2489.79	\$ 146,000,000	\$ 146,000,000	
			105%		100%	
						1000.1

1000.1

APPENDIX B

IRS Activities With Respect to EITC (FY 1998 – FY 2002)

PRE-FILING Customer Education and Assistance	FILING Customer Account Services	POST-FILING Compliance
National marketing, media and taxpayer information campaigns on EITC and advanced EITC (public service announcements, radio and/or TV, videos, infomercials, posters, brochures, stuffers)	Toll-free tax law assistance and Teletax	Auditing of returns (e.g., correspondence audits, field audits)
EITC forms, worksheets and publications simplified	IRS field office assistance (e.g., forms and publications, assistance, tax preparation for certain low-income taxpayers)	Funding of Low-Income Tax Clinics to assist EITC claimants on return issues
IRS Websites on EITC – Tax Info for You and Tax Info for Tax Professionals	VITA and TCE tax assistance	Dependent Database access to Federal Agencies data bases (e.g., SSA, HUD, HHS) for improved case selection
Tax practitioner outreach and education (e.g., EITC Preparer Outreach, IRS National Account Managers, IRS National Tax Forums)	Processing of paper and electronically filed returns	Detecting and investigating possible fraud (e.g., Return Preparer Program, Questionable Refund Program, Tax Refund Scam Alerts)
Partner outreach and education (e.g., volunteer tax assistance sites, low income clinics, community-based coalitions, support at conferences and conventions, etc.)	Advising taxpayers of errors	Recommending assessments if additional tax is due
Advise practitioners of potential problems (e.g., duplicate SSNs)	Answering taxpayer inquiries about their accounts	Handling taxpayer appeals on assessments
Solicit partner and taxpayer feedback (e.g., Gallup Report)	Making corrections and adjustments in taxpayer accounts	Litigation disputes
	Paying refunds	Compliance research studies
3% FTE and 5% Dollars Planned for FY 2002	13% FTE and 13% Dollars Planned for FY 2002	80% FTE and 70% Dollars Planned for FY 2002

APPENDIX C

Examples of Special Needs of EITC Filers

EITC Filer Profile	Key Needs	Planned Strategy
1. Simple returns; low income; low tax understanding; language assistance; children; possible compliance issues	Face to face contact may be necessary with IRS or partner assistance (e.g., VITA, TCE, low income tax clinics); tax education; possible language assistance	<p>Focus on targeted education and outreach activities coupled with the expansion of the refundable Child Tax Credit; improve delivery of volunteer assistance sites; reach out through IRS field assistance sites; provide bilingual assistance</p> <p>Outreach to disabled; military, migrant, day labor force; English second language; Native Americans; homeless</p>
2. Divorced/Separated individuals; simple/average complexity; low income; low understanding of taxes; possible compliance problems	Increased understanding of EITC rules, including filing status, qualifying child, recognition of their circumstances (e.g., accessibility to low income clinics or other third party assistance)	Targeted education and outreach through third parties (e.g., community-based; low income clinics, social service groups, etc.); tailored products and services
3. Paid preparers of EITC claims	Awareness of the EITC rules, and preparer compliance responsibilities, e.g., due diligence requirements	<p>Product development: EITC Tax Professional Guide, EITC Tax Pro Corner Website, EITC Qs & As brochure, EITC stuffer, EITC poster, EITC in a Nutshell, EITC eligibility checklist poster, Foster Child Eligibility Poster, SSN poster</p> <p>EITC Preparer Outreach Program</p> <p>Return Preparer Program</p>

APPENDIX D

Criminal Investigation Activities

Questionable Refund Program

The purpose of the nationwide, multifunctional Questionable Refund Program (QRP) established in January 1977 is to detect and identify false returns, stop the payment of the false refunds, develop the full scope of identified schemes and prosecute scheme perpetrators. Since inception, the program has been responsible for the detection of over \$2 billion in fraudulent refunds and has been successful in stopping 86% of these refunds. In addition, substantial tax-related issues existent in other programs within the Service have been identified, e.g., Abusive Tax Shelters, EITC abuse, Anti-Tax movements, etc., which protected hundreds of millions of dollars in revenue.

The QRP schemes consist of tax returns claiming false income tax refunds based on false income, false Federal income tax withheld and/or false refundable credits, e.g., EITC, Fuel Tax Credit, etc. False returns are detected through various sources, e.g., Questionable Refund Detection Teams (QRDT) located at the 10 IRS campuses, referrals from other campus functions and informants.

The QRP enforcement efforts around EITC involve both Criminal Investigation Fraud Detection Center (FDC) personnel and field office special agents. The chart below, broken down by paper and electronically filed returns (ELF), reflects the percent of QRP individual income tax returns (Form 1040 series) claiming EITC over the past three fiscal years. This chart does not include statistics for false business and 1040X (amended) returns detected by QRP.

<u>Year</u>	<u>Return Type</u>	<u>Returns Detected</u>	<u>Total Refunds Claimed</u>	<u>Returns Claiming EITC</u>	<u>Percent Claiming EITC</u>	<u>EITC Claimed</u>
1999	Paper	21,393	\$ 81,493,139	18,184	85%	\$51,206,144
	ELF	4,435	\$ 15,246,917	3,149	71%	\$ 8,524,343
2000	Paper	18,225	\$220,166,697	13,899	76%	\$33,014,664
	ELF	9,532	\$ 37,612,960	6,479	68%	\$18,362,373
2001	Paper	17,233	\$277,209,541	7,079	41%	\$20,564,573
	ELF	17,275	\$ 81,976,277	7,854	45%	\$21,390,554

During the past three fiscal years, 176 subject criminal investigations were opened on questionable refund schemes that related to fraudulent EITC claimed. These investigations identified a minimum of 7,811 questionable returns claiming a minimum of \$17,013,232 in false EITCs. During this same time period, 130 criminal investigations were recommended for criminal prosecution and 116 persons were criminally convicted of income tax fraud for the various EITC fraud schemes.

Return Preparer Program

The purpose of the nationwide, multifunctional Return Preparer Program (RPP) established in the fall of 1999 is to use education, outreach, and enforcement actions to improve the compliance of EITC and other types of returns submitted by tax return preparers. Recent data indicates that 62% of EITC returns are prepared by paid preparers. These practitioners account for \$5.7 (68%) of the \$8.4 billion in 1998 EITC overclaims.

The RPP schemes consist of tax returns claiming false income tax refunds based on false income, false Federal income tax withheld and/or false refundable credits, e.g., EITC, etc. False returns are detected through various sources, e.g., QRDTs located at the 10 IRS campuses, referrals from other campus functions and informants. The RPP enforcement efforts around EITC involve both Criminal Investigation FDC personnel and field office special agents.

During the past three fiscal years, 96 subject criminal investigations were initiated on return preparer schemes that related to fraudulent EITC claimed. These investigations identified a minimum of 6,854 questionable returns claiming a minimum of \$18,480,242 in false EITCs. During this same time period, 48 criminal investigations were recommended for criminal prosecution and 53 preparers were criminally convicted of income tax fraud for the various EITC fraud schemes.